

TABLING OF THE 2014/2015 FINAL BUDGET: MPOFANA MUNICIPALITY.
REPORT OF THE BUDGET OFFICER TO CHIEF FINANCIAL OFFICER DATED 28
MAY 2014

PART 1 – ANNUAL BUDGET

1 Mayor's Report

In preparing the proposed budget, the Municipality took in to a consideration various aspect. The financial situation of this municipality which has not been stable, the growing trend of unemployment in this Municipal area and jurisdiction and in the country at large which affects the affordability of our communities to pay for the services rendered.

Although the National Treasury encourages that Municipalities must charge a cost reflective tariff, it has not been possible with this Municipality as the services will not be affordable to more than 60% of our communities.

The Municipality is struggling financially and drastic measures need to be taken to improve systems and procedures. In this tough time of economic melt down, everybody including Municipalities have had to seriously consider “tightening the belt” and cut expenditures to the bone and at all cost avoid nice to have and unnecessary expenditure.

The financial strategy has been implemented but is not showing drastic improvements to the financial situation as desired. Also, the rate and service base has been stretched to its capacity. For this Municipality to grow, new investors must be attracted to invest in our Municipality. Not only will this benefit the Municipality with service charges, it also will create employment opportunities for our communities.

The planning and local economic development departments therefore become an integral part of the revenue enhancement strategy.

The fast tracking of the development of the proposed golf estate, and the Kentucky Fried Chicken is important as these investors will contribute towards rates and other service charges. The bonus point is the fact that these monies are almost 100 % recoverable. Zoning for the proposed development must be fast tracked and the impact of the projects must start contributing towards the end of the 2015 / 2016 financial year.

2 Resolutions

The Council of Mpofana Municipality, acting in terms of section 24 of the Municipal Finance Management Act, (Act 56 of 2003) considers:

- 2.1 The proposed annual budget of the municipality for the financial year 2014 /2015 and the multi-year and single-year capital appropriations as set out in the following tables:
- 2.1.1 Budgeted Financial Performance (revenue and expenditure by standard classification) as contained in Table A4 amounting to R110 570 million and R118 874 million respectively ;
 - 2.1.2 Budgeted Financial Performance (revenue and expenditure by municipal vote) as contained in Table A3
 - 2.1.3 Budgeted Financial Performance (revenue by source and expenditure by type) as contained in Table A4
 - 2.1.4 Multi-year and single-year capital appropriations by municipal vote and standard classification and associated funding by source as contained in Table A5
 - 2.1.5 Budgeted Cash Flows as contained in Table 7
 - 2.1.6 Cash backed reserves and accumulated surplus reconciliation as contained in
- 2.2 The Council of Mpofana Municipality, acting in terms of section 75A of the Local Government: Municipal Systems Act (Act 32 of 2000) approves for consultation for adoption with effect from 1 July 2014 the tariff structures and the proposed increases as tabled in the report.

3 Executive Summary

	Adjustments Budget	Budget Year	Budget Year	Budget Year
	2013/ 2014	2014/2015	2015/ 2016	2016/ 2017
	<i>R million</i>	<i>R million</i>	<i>R million</i>	<i>R million</i>

[illegible]

	5	8,668	16,962	10,414	9,737	11,701	11,701	11,701	11,126	10,256	12,271
Loss on disposal of PPE											
Total Expenditure		90,522	91,183	93,371	105,363	109,735	109,735	109,735	118,874	122,909	132,096
Surplus/(Deficit)		(3,348)	(3,860)	(6,135)	(21,745)	(19,267)	(19,267)	(19,267)	(8,304)	(7,888)	(12,019)
Transfers recognised - capital		3,039	9,640	13,217	11,621	11,621	11,621	11,621	16,991	22,371	22,726
Contributions recognised - capital	6	-	-	-	-	-	-	-	-	-	-
Contributed assets											
Surplus/(Deficit) after capital transfers & contributions		(309)	5,780	7,082	(10,124)	(7,646)	(7,646)	7,646	8,687	14,483	10,707
Taxation											
Surplus/(Deficit) after taxation		(1,181)	5,799	5,799	(10,124)	(7,646)	(7,646)	7,646	8,687	14,483	10,707
Attributable to minorities											
Surplus/(Deficit) attributable to municipality		(1,181)	5,799	5,799	(10,124)	(7,646)	(7,646)	7,646	8,687	14,483	10,707
Share of surplus/ (deficit) of associate	7										
Surplus/(Deficit) for the year		(1,181)	5,799	5,799	(10,124)	(7,646)	(7,646)	7,646	8,687	14,483	10,707

PART 2 – SUPPORTING DOCUMENTATION

5.1 Overview of annual budget process

As much as possible this budget is aligned to the Integrated Development Plan, taking into account limited financial resources of the Municipality.

Due to financial resources being limited, the Municipality has come up with a developmental angle and strategy to increase its own revenue base. The municipality has disposed of land through its supply chain processes for an investor to build a shopping mall with, as the start, build the Kentucky Fried Chicken immediately. The finalization of the Golf estate site transfer is to be done before the end of the 2013 / 2014 financial year.

5.2 Overview of budget assumptions

The following budget assumptions were made:

- The fiscal increase in 5.79%
- Salary Increases will be 6.79%.
- Stringent operational spending.
- Increased and enhance credit controlling
- Indigent Register to be rectified.

5.3 Overview of budget funding

The Mpofana Municipality receives the Equitable Share of R 24 807 million which translate to 27% of the Income budget. The total own revenue which is generated through rates, electricity and licenses and fines amounts to R69 440 which is 76 % of the income budget. There still is a challenge faced by the Municipality in connection with the distribution losses due to theft.

Other grants to be received by the Municipality as operational assistance with the following programs will be :

TABLE 1

Grant Name	2014/2015	2015/2016	2016/2017
Community Participation			
Community Library	126	132	359
Museum Subsidy	299	314	331
Provincialisation of Libraries	735	778	819

The total grants to be received excluding capital grants amounts to R 29 701 or 32%.

Table 2

Income	
Equitable share	24,807
Service charges	54,055
Property rates	12,679
Other operational grants	4,894
Other income	14,135

It is promising to show that the Municipality has more than 60% reliant on its own revenue from trading services. The equitable share is enough to cover salaries only.

5. OPERATIONAL BUDGET

TABLE 3

Operational Budget	Budget Allocated	%
Bulk Purchases	49,675	59%
Employee Costs	28,845	34%
Depreciation	6,100	7%
Repairs and Maintenance	2,101	2%
Contracted Services	6,354	7%
Councillor Remuneration	2,007	2%
Provision for Doubtful Debt	8,000	9%
Other	11,393	13%

5.1 ELECTRICITY / TRADING SERVICE

The total allocation for Electricity amounts to R 51 348 which is 56 % of the operational budget. The collection rate of the municipality is at 84% for the credit meter customers. There is a challenge with prepaid meter customers as the distribution losses are high. As a municipality we are currently on a busy with the meter audit for all customers which is part of the revenue enhancement strategy.

Due to limited financial resources and the continued financial strain on the municipality, it is important that the municipality considers expansion and development strategies through redistribution of land for development purposes. This will see the municipality growing through the property rates being charged, increased commercial and bulk consumption of services.

5.2 Councilor allowances and employee benefits

The municipality will increase salaries for the employees by 6.79 % which is average CPI + 1 % as per the collective agreement concluded for a 3 year cycle starting 1 July 2012 to 30 June 2015.

The salaries is one of the major component of the Operational Expenditure . The challenge with the salary bill , is that it is growing faster than the Municipal operations. The equitable share is R 24 million and the salaries bill is R 28 million which may prove not to be sustainable due to the reduced collection rate and electricity thefts.

6. Capital Budget

The total allocation for the Municipal infrastructure grant is R11 991 million and R5 000 million for Electrification programme. The project under construction is the rehabilitation of upper town road which will cost R17 million

7. Proposed tariff increases.

7.1 Electricity

The electricity tariff structure for the Municipality is tables on Table 4 below. Although National Treasury encourages Municipalities to charge a cost reflective tariff, this has not been possible with the Mpofana Municipality as the services will not be affordable. The proposed increases are minimal and has taken into account the economic conditions and the cost driver from the Bulk Supplier which is Eskom at 7,39%.

TABLE 4

	Tariff 2013 / 2014	Tariff 2013 / 2015	
	Current	Proposed	Category
DOMESTIC CREDIT METER TARIFF	1,2997 /kWh	1,3912 /kWh	Domestic
DOMESTIC PREPAID METER TARIFF	1,2231 /kWh	1,3092 /kWh	Domestic
DOMESTIC INDIGENT PREPAID METER TARIFF	0,7770 /kWh	0,8317 /kWh	Domestic
COMMERCIAL CREDIT METER TARIFF	1,3706 /kWh	1,4671 /kWh	Commercial
COMMERCIAL PREPAID METER TARIFF	1,3283 /kWh	1,4218 /kWh	Commercial

NOTIFIED DEMAND	R44,20 / Kva	R47,31 / Kva	Bulk Industrial
ACTUAL DEMAND	R18,41 / Kva	R19,71 / Kva	Bulk Industrial
<i>Monthly charge</i>	R7036,11 / Month	R7531,38 / Month	
Peak	R1,1765 /kWh	R1,2593 /kWh	Bulk Industrial
Standard	R0,8366 /kWh	R0,8955 /kWh	Bulk Industrial
Off Peak	R0,5623 /kWh	R0,60189 /kWh	Bulk Industrial
<i>High Season</i>			
Peak	R3,4281 /kWh	R3,6694 / kWh	Bulk Industrial
Standard	R1,0986 /kWh	R1,1759 /kWh	Bulk Industrial
Off Peak	R0,6359/kWh	R0,6807 /kWh	Bulk Industrial
NOTIFIED DEMAND	R44,20	R 47,31	Bulk
ACTUAL DEMAND	R18,41	R 19,71	Bulk
<i>Low Season</i>			
Peak	1,1765	1,2593	Bulk
Standard	0,8366	0,8955	Bulk
Off Peak	0,5623	0,6019	Bulk

TABLE 4 CONTINUED

	Current	Proposed	Category
<i>High Season</i>			
Peak	3,4281	3,6694	Bulk
Standard	1,0986	1,1759	Bulk
Off Peak	0,6359	0,6807	Bulk
Montly service charge	7 036,11	7531,38	

7.2 RATES INCREASES

The proposed rates increase is 5.1 % which is in line with the fiscal increase as recommended by the National Treasury. Table 5 below depicts the proposed increases , from the 2013 /2014 financial year.

TABLE 5

	Tariff 2013/ 2014	Tariff 2014 / 2015			
Rates Increases	Current	Proposed	Rebate	Other Rebate	Category
AGRICUTURAL PROPERTY	0,0029272	0,0030736	55%		AGRICULTURAL
AGRICULTURAL SMALLHOLDING	0,0029272	0,0030736	55%		AGRICULTURAL
BUSINESS & COMMERCIAL	0,0141389	0,0148458	0%		COMMERCIAL
BUSINESS & COMMERCIAL - SECTIONAL TITLE	0,0141389	0,0148458	0%		COMMERCIAL
COMMUNAL PROPERTY & LAND REFORM	0,0034927	0,0036674	100%		COMMUNAL
INDUSTRIAL	0,0185116	0,0194371	0%		INDUSTRIAL
MUNICIPAL	0,0000000	0,0000000	100%		MUNICIPAL
PLACE OF WORSHIP	0,0185116	0,0194371	0%		PUBLIC WORSHIP
PROTECTED AREA	0,0000000	0,0000000	100%		PROTECTED AREA
PUBLIC BENEFIT ORGANISATION	0,0067613	0,0070993	20%		PBO
PUBLIC SERVICE INFRASTRUCTURE	0,0034974	0,0036723	30%		PSI
RESIDENTIAL	0,0117088	0,0122942	30%	50,000.00	RESIDENTIAL
RESIDENTIAL - SECTIONAL TITLE	0,0117088	0,0122942	30%	50,000.00	RESIDENTIAL
RESIDENTIAL - SMALLHOLDING	0,0049707	0,0052192	55%		RESIDENTIAL
STATE OWNED	0,0034927	0,0036674	0%		GOVERNMENT
TOURISM AND HOSPITALITY - RURAL	0,0092558	0,0097186	15%		COMMERCIAL
TOURISM AND HOSPITALITY - URBAN	0,0133603	0,0140283	30%		COMMERCIAL

7.3 OTHER TARIFF INCREASES

The proposed increase for “other tariffs” is 5.1 % which is in line with the fiscal increase as recommended by the National Treasury. Table 6 below depicts the proposed increases, from the 2013 /2014 financial year

TABLE 6

	Tariff 2012 / 2013	Tariff 2013 / 2014
Category	Current Charge	Proposed
Cemetery Fees	315,30	331,07
Rates Clearance Fees	105,10	110,36
Reconnection Fee	179,72	188,71
Connection Fees		
Category	Current Charge	Proposed
Single Phase Conventional	3 690,22	3 874,73
3-Phase Conventional	5 425,68	5 696,97
Bruntville / Townview	1 302,50	1 367,63
> 15mm	@ cost + R24,28	@ cost + R25,50
Single Phase Prepaid	906,38	951,70
3-Phase Prepaid	3 997,06	4 196,91
Deposits		
Domestic	1 265,14	1 328,40
Commercial	5 255,00	5 517,75
Temporary Connection	Current Charge	Proposed
Single Phase	2 184,08	2 293,29
3 - Phase	2 430,65	2 552,18
Conversion from 3-Phase to 1 Phase	2 524,61	2 650,84
Labour	60,38	63,40

Temporary Connection	Current Charge	Proposed
Travel	1,79	1,88
Conversion from 1 Phase to 3-Phase	2 477,63	2 601,51
Labour	60,38	63,40
Travel	1,79	1,88

Town Plan Fees		Current Charge	Proposed
Search Fee		15,55	16,33
Copies of Documents	A4	1,94435	2,04
	A3	2,79	2,92
Amendment of a scheme		3 323,26	3 489,43
Consent in terms of a scheme		3 323,26	3 489,43
Subdivision of land up to 5 pieces	Basic Fee	1 107,75	1 163,14
	Plus per subdivision + REM	193,86	203,55
Subdivision of land over 5 pieces	Basic Fee	2 215,51	2 326,28
	Plus per subdivision + REM	99,74	104,73
Subdivision for Government Sub	Basic Fee	182,77	191,91
Townships for low-income housing	Plus per subdivision + REM	18,81	19,75
Cancellation of approved layout plan	Basic Fee	1 107,75	1 163,14
Consolidation of land	Basic Fee	276,94	290,79
Consolidation of land	Basic Fee	55,39	58,16
	+ per component	5 538,77	5 815,71
Processing of DFA Applications	Basic Fee	1 107,75	1 163,14
Preparations of Service Agreements	Basic Fee	221,55	232,63
Relaxation of municipal omnibus servitudes	Basic Fee	2 215,51	2 326,28

Alteration, suspension and deletion of condition of title land	Basic Fee	3 323,26	3 489,43
Development situated outside the area of a scheme	Basic Fee	3 323,26	3 489,43
Alteration, suspension and deletion of condition of approval to land	Basic Fee	3 323,26	3 489,43
Closure of municipal land	Basic Fee	3 323,26	3 489,43
Closure of public place	Basic Fee	996,98	1 046,83
New Plans for already erected structures before the PDA	Basic Fee	948.60	996.98

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Chief Financial officer